

Message Text

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12

ACTION NEA-16

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E.O. 11652: N/A

TAGS: EFIN, PK

SUBJECT: REACTIONS OF KARACHI BUSINESS COMMUNITY TO

GOP BUDGET

FOLL TELL SENT ACTION ISLAMABAD INFO LAHORE JUNE 13 FROM
LFARACHI REPEATED TO YOU:

QUOTE

LIMITED OFFICIAL USE KARACHI 1283

E.O. 11652: N/A

TAGS: EFIN, PK

SUBJECT: REACTIONS OF KARACHI BUSINESS COMMUNITY TO GOP BUDGET

REF: TELEX 1K-047

1. PREDICTABLY ALL MEMBERS KARACHI BUSINESS AND BANKING COMMUNITY
WITH WHOM CONGEN OFFS HAVE SPOKEN HAVE VOICED THEIR HEARTY
APPROVAL MOST PROVISIONS OF LATEST BUDGET. BUDGET SEEN AS INVEST-
MENT AND EXPORT ORIENTED, AND PROVIDING SUBSTANTIAL RELIEF FOR
WHITE COLLAR AND SALARIED MANWNERIAL GROUPS WHO HAVE BEEN HARD
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HIT BY HIGH INCOME TAX LEVELS. RELIEF WITH REGARD TO EXEMPTION

OF INCOME FROM SPECIFIED INVESTMENTS HAS GIVEN SUBSTANTIAL SHOT IN ARM TO THE KARACHI STOCK MARKET WHICH IN RECENT MONTHS HAD SUNK TO LOWEST HISTORIC LEVELS. ONE PAPER REPORTED APPRECIATION OF SHARES VALUES OF AROUND 20 CRORES OF RUPEES SINCE BUDGET.

2. SIGH OF RELIEF AMONG MANAGERIAL AND PROFESSIONAL CLASSES HERE FOLLOWING BUDGET SPEECH HAS BEEN ALMOST AUDIBLE IN HALLOWED PRECINCTS OF SIND CLUB AND OTHER WATERING SPOTS WHERE TYCOONS OF KARACHI FOREGATHER. GENEROUS TAX PROVISIONS OF BUDGET WERE PARTICULARLY WELCOMED SINCE MOST BUSINESSMEN HERE HAD BEEN BRACING THEMSELVES FOR SUBSTANTIAL INCREASE IN TAXATION RATES. BUDGET HAS BEEN INTERPRETED BY NUMBER OF PERSONS WITH WHOM WE HAVE SPOKEN AS A DEFINITE TURN IN ECONOMIC POLICY OF PPP TOWARD ACCOMMODATION WITH PRIVATE SECTOR AND ADMISSION OF IMPORTANCE OF FURTHER INVESTMENT THEREFROM.

3. STORY CIRCULATING WIDELY HERE THAT ONE-HOUR DELAY IN PRESENTATION OF BUDGET CAUSED BY HEATED DEBATE BETWEEN MIN FINANCE MUBASHIR HASAN AND PM BHUTTO CONCERNING INCOME TAX PROVISIONS IN BUDGET. WELL INFORMED EXECUTIVES HERE BELIEVE PM BHUTTO STRUCK OUT OF BUDGET MESSAGE, OVER PROTESTS OF MUBASHIR, A PROVISION FOR TAXING PERQUISITES CONNECTED WITH EXECUTIVE POSITIONS AT SAME RATE AS REGULAR SALARY. SUCH PROVISION WOULD, ACCORDING THESE SOURCES, HAVE TAKEN AWAY WITH LEFT HAND WHAT MUBASHIR HAD JUST GIVEN IN LOWERED INCOME TAX LEVELS WITH RIGHT. TOP SALARIED EXECUTIVES HERE IN KARACHI HAVE IN THEIR OWN VIEW SUFFERED HEAVILY FROM VERY HIGH INCOME TAX RATES AT UPPER SALARY LEVELS. EASING OF INCOME TAX RATES WILL DO MUCH TO KEEP THESE PERSONS AT THEIR PRESENT JOBS AT NO MAJOR REVENUE COST TO GOP. MEMBERS THIS GROUP CLAIM THAT REDUCTION TAX LEVELS IN UPPER BRACKETS MARKS DELAYED RECOGNITION OF GOP THAT BEST QUALIFIED MEMBERS MANAGERIAL CLASS HERE WERE CONTRIBUTING TO PAKISTAN BRAIN DRAIN BY LEAVING FOR JOBS IN ARAB COUNTRIES AND ELSEWHERE WHERE THE PAY WAS BETTER AND THE TAXES LOWER.

4. DESPITE SATISFACTION OVER TAX RELIEF AND INCREASED INCENTIVES FOR PRIVATE INVESTMENT, BUSINESS COMMUNITY HAS ALSO SHOWN SOME SKEPTICISM OVER GENEROUS FIGURES UNDER CERTAIN REVENUE HEADINGS IN BUDGET AND FEEL THAT ACTUAL COLLECTIONS MAY NOT MEET EXPECTATIONS. CONSEQUENTLY, IT FEARED THAT SUPPLEMENTARY LIMITED OFFICIAL USE

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BUDGET WITH HEAVIER TAX RATES MAY BE PUT OUT IN THREE OR SIX MONTHS.

5. ONE ASTUTE OBSERVER LAST NIGHT TOLD ME HE HAD CONCLUDED THAT PM MUST HAVE RECEIVED CONFIDENTIAL ASSURANCES FROM ONE OR MORE ARAB OIL-PRODUCING COUNTRIES CONCERNING ASSISTANCE TO PAKISTAN TO HAVE BEEN ABLE TO ISSUE SUCH A GENEROUS BUDGET. HE ASKED WHETHER USG HAD RECEIVED ANY WORD OF SUCH ASSURANCES TO

WHICH I HAD TO REPLY IN NEGATOVE. WITHOUT SUCH ASSURANCES, OUR
ASTUTE OBSERVER CONCLUDES LIKELIHOOD OF SUPPLEMENTARY BUDGET IS
HIGH.
BRYANT UNQUOTE BYROADE

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